CITY of SPRINGFIELD

POLICE AND FIRE RETIREMENT SYSTEM OF SPRINGFIELD, MO

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Springfield, Missouri 65801
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Minutes
September 30, 2009

1. Call to Order

Homan called the meeting to order at 6:38 p.m. Minutes taken by White.

Attendance

Members	Representation	Present	Absent
Ken Homan	Chairman	X	
Beau Barrett	Citizen	X	
David Carter	Fire	X	
Jim Edwards	Police	X	
Steve Fenner	Citizen	X	
David Hall	Fire	X	
Ron Hoffman	Retiree	X	
Evelyn Honea	Deputy City Manager		X
Sheila Maerz	Human Resources		X
Mary Mannix-Decker	Finance		X
Jim McCulloch	Police		X
Cindy Rushefsky (NV)	City Council Liaison	X	
Dan Wichmer (NV)	Law		X
Nikki White (NV)	Secretary	X	

NV = Non-voting

Additional Funding Contribution (AFC)

Homan stated that this was a special meeting for the purpose discussing the recalculation of the Additional Funding Contribution and more particularly the amortization rate. In the last meeting when considering the rest of the Experience Study, the AFC had not been determined and would be part of the valuation report to be published within 10 days. The board has been talking about amortization issues and what would happen to this plan if it closes and part of the actuaries comments on the Experience Study were that if the Tier I plan closes the board would have to reconsider some of the assumptions made in the Experience Study. When we think about plans closing and we think about amortizations, the AFC got to be problematic in that it is in effect closed. It closed back in 2006 when Tier II was adopted and that was after the last five-year Experience Study which was in 2004. The AFC was 2.85% in 2004. If the payroll of Tier I employees, who are bound to pay the entire cost, deteriorates to the point where it goes away in 20-25 years, does it make sense that the unfunded liability with a 30-year amortization period, exceeds the payroll? Homan added that it seems very evident that the answer to that is no.

Homan distributed a copy of Zwiener's memo regarding the AFC discussion to those in attendance (memo on permanent file)

Michael Zwiener and Mike Sudduth of Milliman joined via conference call at 6:45 p.m.

Homan turned the meeting over to Michael Zwiener of Milliman.

Zwiener started off by saying how difficult this situation is. He looked at the statute and the statute requires that the AFC, which is the additional contribution members pay in order to fund the cost of the extra three-tenths multiplier, be recalculated every five years. When that rule was adopted there was probably no contemplation that it was going to be applied to a closed group.

Milliman has calculated the unfunded accrued liability associated with the extra three-tenths multiplier as $9.2 million and the cost of benefits expected to accrue in the current year as approximately $450,000. For the Fund in total, the unfunded accrued liability is amortized on an open group 30 year level percent of pay basis, with 3% assumed aggregate salary growth. If the unfunded accrued liability for the extra three-tenths multiplier is amortized in the same way, the resulting AFC is 4.75% (in addition to the base employee contribution rate of 8.5%).

A significant change has occurred since the AFC was last reset June 30, 2004 which impacts the funding of the extra three-tenths multiplier. The Tier I plan closed in June 2006 and the extra multiplier is no longer available to new employees. Since the AFC can only be assessed on this closed and shrinking pool of Tier I members, the AFC rate must be increased to fund the liability. Without a major increase in the AFC rate now, there is a risk that, in order to amortize the unfunded accrued liability in the future, the AFC will have to increase to prohibitively high numbers as the number of Tier I members decline. The end result would be that Tier I members would be unable to pay the cost of the extra three-tenths multiplier.

Zwiener stated that as requested, they considered alternative ways to amortize the unfunded accrued liability which would reflect that Tier I is a closed group and insure that the full cost of the extra three-tenths multiplier is borne by the Tier I members as required by current statute. One way is to determine the level percent of payroll, which when applied to the projected future (declining) payroll, amortizes the $9.2 million unfunded accrued liability. The result under this methodology would be an AFC of 7.52%. The components of the 7.52% are 5.43% to amortize the unfunded liability and 2.09% to pay for the cost of benefits expected to accrue in the current year. To the extent that the actual experience matches assumptions, the AFC would be expected to remain level over the contribution period.

Zwiener referred to the chart on page 3 of his memo. In looking at columns 1, 4 and 5, we see that the projected payroll, even with the expected payroll increases, is more than offset by people retiring so the payroll declines. Columns 2 and 3 are the old procedure. In his opinion, the old procedure is broken. The chart shows that if the old procedure is utilized it puts the burden on the final people remaining in the plan and exceeds 100% of their pay. That's why we went back and looked at this as a level percentage of pay basis over the lifetime to avoid the sort of situation we see if we keep the current procedure.

Hall asked about the Projected Payroll of Remaining Tier 1 Employees that states in year 34 its $652 and in year 35 its $94. He asked if this was the net present value and if so, it seems low. Zwiener said that they don't have 100% retirement decrement until age 60. There is a 25-year-old member that has a minuscule chance of remaining active 35 years out. When you multiply 1 in 1000 probability that he is still there you just have a very small amount. Hall stated that what he takes from this is that it's obvious that we can't use the current method because it's constrained by the fact that ordinance says that the AFC shall be equal to the cost of the additional three-tenths multiplier. Under the current method, realistically that's impossible because it would take nearly 400% of payroll. If we utilize the level method, every five years we will still need minor adjustments just based on actual plan experience, but in general it's probably going to be close to the 5.43%. Hindsight is that it would have been nice to have amortized this equally amongst all participants from the beginning. Zwiener added that we wouldn't have wanted to do this in the beginning because it wasn't a closed group. Hall agreed that it wouldn't have made sense to do this with an open group. Hall added that our best estimate at this point is the 5.43% plus the 2.09%. Zwiener said that in their opinion this the most logical way to amortize the amount. There are not holes in the methodology they are using. If he was speculating the argument not to contribute, it comes down to practical arguments such as there wasn't an expectation that this would some day be a closed group. That was something that came out of the blue. Yes, the statute says that the member covers the full cost, but a member could argue that the game changed when the group was closed in 2006.

Hall asked about shorting up the amortization period from 30 years down to 20 years. Zwiener said that since the group is closed they can project out with a fair degree of accuracy what the payroll is going to be year by year. That's more of an exact method so why would we not want to spread it over the payroll?

Edwards asked if year one on the chart started this year or next. Hall answered July 1, 2010. Edwards asked if this was passed tonight, would there still be five-year reviews. Homan said there would still be reviews and adjustments. Edwards added that this just keeps it from getting out of hand. Hall asked Zwiener if even though there would be reviews, the adjustments should be minor. Zwiener agreed and said that every five years we will true up, but the true up would be for experience and we certainly shouldn't see anything of the magnitude that we are doing now. Zwiener added that they did not build in anything over and above the standard retirement assumption decrements. He asked if we'd expect to see additional retirements occur because of this. He said that is a potential wild card. Hall said he thinks it will impact the number of retirement slightly, but he thinks it will be fairly minor. He thinks members will look at their contribution rate and what their retirement will be and it's really a net savings when they retire so it makes it not as big of a reduction in the take home. He would fear the opposite, that if something isn't done then in future years you will very quickly drive people out when the look at their contribution rates being 20% of payroll.

Edwards added that there are some police members who are close to retirement that probably will retire sooner, but he agrees with Hall that if it gets to where they are paying over 20% of their check they will leave especially if they are employees who are now at the beginning of their career. Carter said he disagrees. It makes him want to leave tomorrow if he stands to loose 7% more of his paycheck. Edwards added that he thinks it will be the catalyst between the people who would stay 25 years and the people who can leave with 20 years. Carter said this isn't what he agreed to. He didn't know the plan was going to change. He didn't have any choice in changing the plan. Carter asked Zwiener if he had the number it would be if it were still an open plan. Zwiener said it would be 4.75% and that includes the 2.09%.

Fenner asked who closed the plan. The response was the City. Fenner asked if this was a decision this board should be making or if the board should be talking to City Council. Edwards said the plan is still open however the benefits changed when Tier II was created. Zwiener added that he would go a step further in that the nature of the funding mechanism for the .3% method changed to. If you spread the amortization of the unfunded out over time with the expectation of a slowly growing payroll, then that amortization gets spread out over a long period of time. By closing it you no longer have a growing payroll, you have a shrinking payroll and the unfunded gets paid off earlier. Homan added that there was $3 million unfunded liability from day one of the AFC being adopted. Hall said that basically there are two components of the unfunded. One is the retroactive part and the other is the market conditions and the other assumption changes. Zwiener said he agreed.

Rushefsky asked what the alternative was. Fenner asked if an alternative was to go to Council and explain that the members didn't agree to have their percentage increased. They weren't a part of deciding to close the fund and whoever made that decision needs to make up the difference. Rushefsky asked with what would Council be able to make up the difference. Fenner said he didn't know. It seems like he hears talk that the board can't go to Council and demand that they pay more. He said the SPOA said the board should have demanded that Council be making payments all along. He doesn't know how the board can give direction and make the members pay more. Barrett asked if the public or the City decided to close Tier I. The response was the City decided to close it. Barrett said that he can see where the Tier I members can be asked to pay the 4.75% because that is what an open plan adjustment would be. It's hard for him to see how the employees can be asked to pay the difference between the 4.75% and 7.52%. To him that's more of a City responsibility if it was the City's choice to close the plan. If it was a public choice to close the plan, he might have a different perception. Homan said he's not sure it was a City choice to offer the three-tenths multiplier. That was something the associations wanted with the agreement that it would be entirely funded by the employees. It wasn't even thought about whether the plan would be open or closed. The City also didn't think about having to fund the plan at 63% of contributions. Most of this is a function of the market conditions over the last 10 years.

Rushefsky said that realistically she doesn't know how this will be paid for. The reason the plan closed is because the City doesn't have the money to pay for it. She said we have to look at if they want a plan. If the members expect to have a plan then it has to be paid for. If the City is going to have to pay some then the employees need to pick up a portion too. She doesn't think that is necessarily an unreasonable change.

Homan said there are two big components. He's not sure that the change in amortization is even the bigger component. The reason we are unfunded by $9.2 million is primarily because of the market conditions. You can also make the case when this was set up it wasn't considered what would happen if the investment bogey wasn't hit. Rushefsky said that we are still stuck with the reality that the City doesn't have the money to pick up the difference. Homan said he understood that.

Barrett said to your average person bumping it up to 4.75% is one thing, but in today's times he doesn't know that the 7.52% is reasonable. Homan said in this case the employer didn't take on the risk of this. It was completely adopted by the employees at their full cost. The language is pretty clear. Carter added that the language is pretty clear that it was an open plan though. The difference in the 4.75% and the 7.52% is solely that the company closed the plan. He added that it's not because of the market. Homan said but there would not be as large of an unfunded liability. Carter said he agreed with that, but he doesn't agree that most of it is because of the market. Rushefsky said that the situation is that neither side foresaw the particular circumstances that we are in. The City has picked up some of the difference. The employees wanted the multiplier, they agreed to fund it and this is what has to be done in order to maintain it. Homan said the only other option would be to close this feature of the plan and pay off the unfunded liability. Even if the multiplier is done away with, there's still $24,000 debt per employee on the unfunded liability. Several made the comment that doing away with the multiplier will be a fight.

Barrett commented that to an average family trying to feed a family, going to 7.52% in one year is a huge jump. Homan added that to increase it gradually you are just putting more of the burden down the road for employees that will pay on it longer rather than those who just have a few years left. Barrett said that makes sense, but he's thinking about the person that would say that they are going to look for another job if that is happening this year. If phased in over five years and then leveled out, maybe that is something they could work with. He added that this is a problem that's going to be painful to everyone including employees, the City and citizens. He said he's not totally against this, but he can see the line of thinking

that the assumptions changed when the employees didn't agree to it. He could see where people might walk if it is jumped this much in one year.
Hall said there was a change that was made out of the control of the employees and they are bearing the cost. He thinks it may be somewhat unfair to do that because the belief was that this would be an open plan. However, the bottom line is clear that the employees are going to pay the full cost of this. As a board member his goal is to make sure it's properly funded. He thinks we have to look at what is the proper way to fund this benefit. This is probably a discussion the employee groups need to have with the City. They need to explain that the City made a change that impacted the members. Rushefsky agreed and added that as a board there is a responsibility to make sure it is funded. The next step would be for the SPOA and the IAFF to sit down with the City and decide what happens next. Hall said the way he looks at it is that when he voted to raise the City's rates last week with the assumptions, he wasn't concerned with the City's ability to pay because that is not his job. Unfortunately he can't really be concerned with the employee's ability to pay either. This is the cost and he has to make sure that it's solvent over the long run. Hall added that how that gets worked out in the details he thinks is important and relevant. He said we have to call it like it is as a pension board and not cost shift into the future. He thinks that a real lesson in this is that the City wants to close this plan and the same thing is going to happen on a grand scale as you close the plan. It will no longer be one particular benefit being dealt with. This is just an indication of the magnitude of closing the plan.

Fenner asked if the vote for the increase should take place now or if there's 60 even 90 days to discuss it. He suggested letting the associations and the City hammer it out and go from there. Homan said he's not comfortable with that because the board has to make sure it is paid. Hall added that a decision has to be made in order for the actuarial study to be complete. However, how it gets funded between now and July 1, 2010 would be up to those groups. Barrett said that he would agree that Milliman's proposal is what needs to be done. He just questions that the employees are responsible for picking up the entire increase. Hall said there's a 2.77% difference if the plan is open versus closed. Hoffman added that from a board stand point it is what it is and the logistics of how it comes to pass is really not the board's problem. He added that the board doesn't have much of a choice. Fenner added that the board's call is that we have a fiduciary duty to manage the fund properly. The fund is to benefit the police and fire employees so basically the board is working for the benefit of policemen and firemen. His question is who is this increase benefiting and who is it hurting? Rushefsky stated that the board's job is to make sure the pension is properly funded and that is our obligation to the employees. How it's done is between the employees and the City. Fenner said if we have 9 months to worry about the funding, maybe the board should give the groups time to hammer it out. Rushefsky said the board voted to increase the City's contribution because they felt it was necessary for the interest of the fund. She said if you're going to do that then the board better do everything in the interest of the fund. Carter said he understands fiduciary duty and we have to narrow our focus on the board and our duties, but the employees are not going to have a choice on whether to miss a payment or not. He asked if the City is going to make a 74% contribution next year just because the board said that is what they need to do. Rushefsky said she didn't know, but she thinks that is a matter between the City and the employees. The board's job is to say what necessary to properly fund the pension. Fenner said he doesn't have a problem with doing that very thing as long as the board isn't extending it to say they recommend the employees bear the cost. We are a voting that the cost must go up, but it's between the City and the associations to negotiate who funds it.

Homan asked Zwiener if there were any other recommendations. Zwiener said anything less than the current 5.43% just pushes into the future. He said if the contribution increase was stair stepped over a year or two he doesn't have an issue with that from a funding standpoint. Homan asked the board if this is something the board should consider or if it's the City's discretion. Carter asked Hall how the statue reads. Hall said it reads that the AFC is intended to cover the additional cost to the plan of the additional three-tenths multiplier. The AFC will be calculated by the actuary over the intervals of five budget years so that the total amount derived from the AFC for all eligible employees shall be equal to the cost of the additional three-tenths percent multiplier for all eligible participants.

Hall stated that it's the board's job to set the number at what it needs to be, not what we'd like for it to be. He added that it is pretty clear that this is what it takes to fund it. He agrees that it is unfair to the employees that the change in the plan is costing them money that they didn't anticipate. He thinks it might be an option to phase it in although the downside is that it will cost shift it to people down the road. He personally can't support that. Rushefsky thinks the board has an obligation to point out these things, but she doesn't think it's the board's role to decide. It's clearly a City Council decision.

Hall made a motion to establish the assumption on the Additional Funding Contribution by a level percentage of projected payroll amortization method at a rate of 7.52% as recommended by the actuary with a note to City Council that had Tier I not been closed in 2006 the contribution increase would only have been 4.75% vs 7.52%; 2nd by Barrett. Vote Yes: Barrett, Edwards, Fenner, Hall, Hoffman, Homan. Vote No: Carter.

Homan was directed to draft a letter to Council explaining the situation. The letter will accompany the actuarial valuation report.

Adjournment

The meeting was adjourned at 7:52 p.m. on September 30, 2009.